EMPLOYMENT POLICY IN SWEDEN: National Goals and Regional Development

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Abstract

This article describes the development of Swedish employment policy under the leadership of the Social Democratic Party from 1932 to the present. The Swedish case illustrates how national employment policies may form the basis of industrial and regional development policy, such that the diverse goals of full employment, inflation control, and sustained economic growth may be simultaneously achieved. The price Sweden has paid for its full employment policy has primarily been the policy's contribution to uneven regional economic development. The article focuses on the institutional and political context for Swedish policy development, the creation of the Swedish Model, and employment and regional development policy today.

Introduction

Many countries with market economies have resisted adopting and aggressively pursuing a full employment policy, fearing a high price would be paid in reduced economic efficiency, innovation, and growth rates. Neoclassical Phillips curves have been used to advance the theory that full employment can lead to wage-price spirals as union collective bargaining leverage is increased and managers raise wages to insure an adequate supply of skilled labor. The Swedish case suggests that these assumed tradeoffs may not necessarily exist, or to the extent they do exist, they can be mitigated at a low social cost. Sweden has maintained some of the lowest national unemployment rates in Europe, while maintaining a market open to international competition and sustaining inflation and growth rates that are comparable to other European nations.

Sweden's coordinated industrial policy (called the Swedish Model) utilizes government programs to reduce the cost of labor for all firms by making labor markets more efficient. This reduces production costs for Swedish firms and helps make them more competitive in international markets. However, their policy of making labor a free-flowing factor of production has led to accelerated job displacement and a geographically lopsided distribution of economic growth, favoring the warmer southern regions closer to foreign ports. The Swedish Model has exacerbated regional growth disparities in pursuit of other social goals.

This case study focuses on the institutional and political structure through which Sweden develops and implements its economic policies. The application of the Swedish Model in other countries is contingent on the replicability of the essential functions of key Swedish institutions, most notably a system of centrally determined wages, a centralized administrative structure with local flexibility, high unionization rates, and a long-term political/social commitment to a full-employment economy.

The first section provides a historical background for the evolution of the Swedish Model, focusing on the close ties between the labor federations and the ruling Social Democratic Party. The second section looks at the policy of full employment itself and the agency charged with carrying it out, the National Labor Market Board. Full employment is placed in the context of national industrial policy and the Swedish Model, followed by a discussion of the regional impacts of the coordinated industrial policy. Employment policies and programs in the 1980s are examined, with attention given to some of the refinements made in the Swedish Model to address the regional problem. Finally, concluding comments are made on the successes of the development model and its public policy significance.

The Swedish Policy Context: Coalition and Consensus

Sweden's ability to develop innovative employment and industrial policies has been partly attributable to its unique political structure. Swedish politics has been characterized by political stability, consensus decision-making, centralized yet flexible program administration, and strategic coalitions to secure support for policy. The end result has been a series of successful, progressive programs that have helped to control inflation and insure both full employment and moderate economic growth – a feat that has been rarely duplicated elsewhere.

The Swedish Social Democratic Party (SAP) has been in power since 1932, with the exception of the period between 1976 and 1982 when a Center/Liberal party coalition was elected. The SAP's political power base lies with the Swedish Trade Union Confederation (LO), which it helped to organize before coming to power. LO is the largest Swedish labor federation, representing 95 percent of all the blue-collar workers (half the nation's workforce) in 24 industrial unions (Lyon 1986).

LO political support for SAP is institutionalized, making the party act, in some respects, as the political wing of the labor federation. LO has provided a large part of SAP's funding, and two of the last three LO presidents have been SAP members of the *Riksdag* (parliament). Collective affiliation laws permit union locals to affiliate their entire membership with the party. In such instances, individuals must take positive action to avoid affiliation. Only 5 percent of the LO membership has actually refused collective affiliation, despite the fact that the policy is unpopular among rank-and-file members (Heclo and Madsen 1987).

Close ties between LO and the ruling party have been a critical factor in shaping economic policies that are in the interests of Swedish workers. Since over 85 percent of the Swedish workforce is unionized (most of the remaining unions are in the large white-collar federations, TCO and SACO/SR), the country has an institutional base from which to organize around full employment and working conditions (Gourevitch et al. 1984). More important is the union connection with the SAP that allows for new union-sponsored programs to be planned and implemented as national policies.

But the SAP/LO coalition has met some opposition. The power of the labor federations is balanced by the Swedish Employers Confederation (SAF), whose 38 member industry associations represent corporations employing half the workforce (Heclo and Madsen 1987). Since the mid-1950s, SAF and LO have bargained centrally over the national wage structure, leaving the national and local unions to bargain over non-wage working conditions on the industry and corporate level. In this way, LO has been able to push for a wage structure that is consistent with national economic policy constraints set by SAP. To the extent LO has been successful at the bargaining table, it has provided policy-makers with an additional and critical measure of control over the market economy.

Full Employment and the National Labor Market Board

Sweden's economic policy consensus began to develop in the 1940s and 1950s. The Social Democrats had stood for a full-employment economy since the party's inception. In the early years, the SAP concentrated on creating a number of counter-cyclical measures designed to boost employment during economic downturns, including standby public works programs and deficit spending. These policies helped to ensure the party continued support from the labor federations, and by the late 1940s the full employment policy had become almost an article of faith (Heclo and Madsen 1987).

But a full employment policy would have never succeeded if it caused economic stagnation. Sweden would have had difficulty remaining competitive in international markets if the government maintained a policy of holding onto jobs at all costs and using the government as the employer of last resort. Instead, policy decisions reinforced market tendencies for structural change in the economy by moving labor to where it was most needed. This required government intervention in labor markets to find out where private sector employment opportunities existed, and then train and relocate workers to those jobs.

To coordinate this effort, Sweden created a unique institution in 1948 called the National Labor Market Board (AMS), which executes the labor policies set by the ruling party and Parliament. The AMS is funded annually from the national budget and has 15 members, nine from labor federations and the rest from business and government. This tripartite structure has helped provide AMS with valuable information in developing its implementation strategies and has helped insure labor and management cooperation in developing public policy. Regional offices and 24 County Labor Market Boards help facilitate the flow of local information to the top, and continuity of funding has permitted long-term planning. Since all Swedish employment policies and programs are administered by AMS and its affiliated bodies, program overlap and fragmentation is diminished (Ginsburg 1983).

The Swedish Model

The development of Sweden's system of coordinated industrial policy in the 1950s and early 1960s is attributed to the work of trade union economists Goesta Rehn and Rudolf Meidner. They helped shape the economic policy adopted by the Social Democrats until the party's ouster in 1976, forming the basis of economic planning today (Gourevitch et al. 1984). It was considered a coordinated policy; direct industrial, full employment, and regional development policies complemented one another such that each policy created an economic condition consistent with the goals and operations of the others. Industrial policies were not adopted that jeopardized full employment, and employment policies were not implemented that severely restrained economic growth. In this way, many diverse policy goals were achieved by using methods which did not work at cross-purposes with other policy objectives.

The Swedish model grew from Keynesian roots. Its basic tenet was that the market did not misallocate the factors of production by combining them in the wrong proportions, it simply did not allocate all of them, resulting in unemployment. A critical factor of production, labor, was not entirely used up by the production process, resulting in the socially untenable condition of widespread unemployment. Government should step in to make labor a freer-flowing factor of production. This would increase aggregate employment and production levels.

The Swedish model was designed to permit wage increases and maintain full employment without inflation. It was characterized by:

- Nonintervention in production, allowing the market to determine which firms fail or flourish. Private ownership of the means of production.
- A fiscal policy expansive enough to insure full employment (in combination with other employment policies) while tight enough to yield insufficient demand in the least profitable activities.
- A "solidaristic" wage policy (unions demand the same wage for the same work regardless of each firm's rate of profit) combined with high sales taxes which would squeeze unprofitable firms out of the market sooner and dampen inflation. These firms would face the same wage rates as the most profitable firms and be less able to raise prices due to the sales taxes.
- Measures to reduce frictional unemployment such as retraining, relocation grants, and job information services. This was even more essential since the wage policy would increase the rate of plant closures.
- Job creation schemes and recruitment subsidies designed to reduce unemployment by stimulating demand for labor above the level the market would normally provide.

The Swedish Model attempted to achieve the social goal of full employment without inflation by making labor markets work efficiently (stimulating labor demand and facilitating the flow of information) and increasing domestic competition through wage and tax policies. More intense competition would increase innovation and keep prices down, thereby helping to control inflation and facilitate economic growth.

The policies were largely successful. From 1950 to 1980 the annual unemployment rate never rose above 2.7 percent. Even if all workers in government-subsidized employment and training programs were counted as unemployed, "unemployment" in those years was never higher than 5.7 percent. France, Germany, Britain, and Italy had unemployment rates two and three times the official Swedish rate in the late 1970s (Gourevitch et al. 1984).

Apparently, accelerated competition and government intervention in labor markets had stimulated private, unsubsidized demand for labor. Tables 1, 2, and 3 compare the performance of the Swedish economy to the European Community (EEC) and the United States by presenting data on GDP growth rates, per capita GDP levels, and the rate of change of price levels, respectively. Throughout the last few decades, the Swedish economy has been out-performed by the United States. But the EEC may be a more relevant comparison since it faces natural

Table 1

Gross Domestic Product Comparison
*At Current Prices and Current PPPs**
1971-1986 (annual percentage change)

	Average Annual Percentage Change			
Area	1971-86	1971-76	1977-82	1983-86
Sweden	8.3	9.4	8.8	5.7
EEC	8.9	10.4	9.7	5.5
United States	9.3	9.8	10.0	7.6

Table 2

Gross Domestic Product Per Capita Comparison
*At Current Prices and Current PPPs**
1971-1986 (US dollars)

	Average Annual GDP Per Capita			
Area	1970-86	1970-76	1977-82	1983-86
Sweden	7,671	4,986	8,663	12,241
EEC	6,419	4,037	7,415	10,259
United States	9,951	6,360	11,360	15,965

*Purchasing Power Parities are special exchange rates that account for differences in price levels in two areas. OECD calculates PPPs by comparing prices for the same basket of goods in each area and adjusting the exchange rate accordingly.

Table 3

Gross Domestic Product Price Indices 1961-1986
(annual percentage change)

Area	Average Annual Percentage Change				
	1961-86	1961-70	1971-76	1977-82	1983-86
Sweden	7.3	4.3	9.5	9.6	7.8
EEC	7.1	4.2	9.2	10.1	6.6
United States	5.0	3.1	6.9	7.7	3.2

Note:
The period 1977-1982 corresponds with the change in administration from the Social Democratic Party to the Center/Liberal Party coalition. The Social Democrats regained power by 1983.

Source: OECD, "National Accounts: Main Aggregates, Vol. 1, 1960-1986," Paris, 1988.

resource constraints similar to Sweden's while maintaining a comparable level of industrial development.

In Table 1 we see Sweden's average annual economic growth rates have been slightly lower than the EEC's over the period 1971 to 1986 (8.3 percent versus the European rate of 8.9 percent), but this seems to have improved in the most recent period (1983 to 1986). GDP per capita (Table 2), which indicates labor productivity, has exceeded that of the EEC throughout the period. Inflation, shown in Table 3, has been on par with the European rate since 1961. It has changed slightly in the most recent period, for the worse. All in all, the numbers suggest the Swedes did not have to trade away much in economic growth and inflation control to secure full employment.

The Swedish Model and Regional Development

The essence of the Swedish Model was government restraint in the organization of production. The government did not pick and choose industrial sectors for growth or protection as in Japan. Instead it tried to make markets work better by creating the conditions for growth throughout the economy and letting the market work out the details of where (physically and sectorally) that growth would occur. In contrast to other Western democracies, Swedish government policy accelerated the Schumpeterian process of creative destruction by making it harder for unprofitable firms to stay in business. The accelerated job displacement prompted the government to establish mobility grants to ease the burden on displaced workers and insure the supply of labor where it was needed. The government helped with moving and travel expenses and gave an allowance to keep a second home for six to nine months. AMS would even buy a dislocated worker's home, in some instances, to facilitate their relocation. Those who preferred to commute long distances could receive travel grants. Since most new jobs were located in the warmer southern region, these programs earned AMS the nickname "all must southward" in the sixties as workers began to resent the government's insistence on moving labor to where the jobs were (Ginsburg 1983). Most of these programs are still in place today.

The policy emphasis on labor mobility and accelerated competition meant that, for all intents and purposes, there was no regional development policy. There were no government programs to encourage capital investment in regions characterized by economic stagnation. Economic growth would occur where the market made it most feasible, without government intervention. A combination of factors forced the government to modify this unpopular policy in the 1970s; these factors included severe oil price shocks, rationalization in the forestry industry, heavy foreign competition in the steel and shipbuilding industries, and political pressure from the Center Party. Economic decline in the northern two-thirds of the country became intolerable, while the South entered a period of economic stagnation. For the first time, the government was forced to address the regional problem (*The Economist* 1987).

The answer was a series of regionally directed policies which, again, had their emphasis on labor markets. Investment Reserve Funds, which had previously been used only during recessionary periods, were made available for use in officially declared development zones. Under the program, the government would provide tax incentives for corporations to deposit 50 percent of their profits in blocked, no-interest accounts with the Bank of Sweden. The funds could be released for tax-free use to finance AMS-approved investment projects. Funds taken from the account within five years for investment purposes without AMS approval would be taxed. In general, AMS would approve only those projects that would make the company more competitive without permanently reducing their demand for labor. Investments to permanently replace workers with machines without improving market share were seldom approved.

During worldwide recessions, those export firms threatening to lay off workers due to declining demand were given stockpiling subsidies (up to 20 percent of the stockpile's value) to maintain pre-recession production levels. Firms only received the subsidies if they maintained their employment levels during the period of subsidy. The policy was justified under the assumption that the recession would end and exports would pick up again, and the extra goods would not have to be dumped at a low price. In addition, transport subsidies were used to reduce the high cost of shipping goods from the north.

Other programs included employment subsidies to firms that increased their labor demand, and grants for in-plant training. Nationwide unionization and the "solidaristic" wage policy helped to insure that new jobs were also quality, high-paying jobs, even in depressed regions. Safeguards against employment discrimination were also emphasized, since wage subsidies were only available to those firms with 40 percent of each sex on the payroll (Ginsburg 1983). Thus, the main emphasis in the new regional development policy was to reduce the cost of labor. This accomplished two goals. It improved the international competitiveness of Swedish firms by reducing their production costs, and helped assure attainment of the nation's goal of full employment.

In the late 1970s, faced with continued economic and political pressure to do more for the troubled regions, the ruling Center Party coalition began to increase government spending to stimulate demand, raising the government deficit from 2 percent of GDP in 1976 to 13 percent in 1982. Now direct government subsidies were used to prop up the ailing steel and shipbuilding industries. Direct industrial subsidies rose from SKr 1 billion in 1975 to SKr 17 billion ($2.4 billion) in 1982 (*The Economist* 1987). This change in policy ended the supremacy of the Swedish Model, since the rule of nonintervention in sectoral allocation of capital was broken. Still, despite these changes, the northern forestry counties continued to endure unemployment rates nearly twice that of the metropolitan counties throughout the early 1980s (*Statistika Centralbyraan* 1987).

The Third Way of the 1980s

The brief, four-year interregnum in SAP hegemony saw the decay of the Swedish Model. The re-emergence of the Social Democrats in 1982 coincided with a period of record high unemployment, inflation, and government deficits. The government refused to adopt the policies of its EEC neighbors and fight inflation by creating more unemployment, nor was it interested in continuing inflationary government spending to preserve jobs in declining sectors. Instead, it opted for a model the Social Democrats called the "third way", consisting of:

- a 16 percent devaluation in the Swedish krona to stimulate exports,
- a cut in the federal budget deficit from 13.1 percent of GDP in 1982 to 3.6 percent in 1987,
- a reversal in the policy of providing subsidies to ailing enterprises to maintain employment levels and a re-emphasis on moving labor and capital to the most profitable activities (*The Economist* 1987; Swedish Ministry of Finance 1987).

These policies of fiscal restraint and government nonintervention in production and capital allocation decisions were reminiscent of the old Swedish Model. But the main difference this time was a new emphasis on regional development that was lacking in the sixties. In late 1986, the AMS temporarily banned the use of investment reserves for construction in metropolitan counties, in an effort to encourage investment in the northern development areas. New government programs were created to construct new roads, airports, and universities in forest counties and increase the capacity of the telecommunications network. In some cases, even public enterprises and commissioning authorities qualified for regional support to encourage their relocation to northern counties (Swedish Ministry of Finance 1987).

Employment Policy Today

To carry out the goal of making Swedish industry more competitive while maintaining full employment, the SAP has devised an array of employment programs designed to reduce certain labor costs. Government subsidies for both general and specific training, job banks, mobility grants, relief work, and new recruitment grants are all designed to reduce the costs to private corporations of recruitment and training. The government plays a central role in training workers to meet corporate needs and connecting employers with skilled white- and blue-collar labor.

The institution charged with training and placing workers to meet local needs is the Employment Service (ES), administered by AMS. ES has over 200 district and local offices throughout the country. They are able to match workers with job opportunities, since all jobs lasting more than ten days (with some special exceptions) must be listed with the service by law, and all job seekers must register with ES to receive unemployment benefits. These laws have created a wealth of comprehensive planning data that has permitted ES to tailor its services to local labor market conditions. ES specialists can provide aptitude, psychological, and work capacity assessments to assist workers in making their career choices. Referrals are made to other AMS-sponsored programs (Ginsburg 1983).

ES provides job training (mostly vocational) to all workers who are unemployed, hard-to-place, or in danger of becoming unemployed. There are no income eligibility guidelines or required participation in other relief programs as in the United States. The government pays for course materials and travel costs, and provides a small stipend of about $50 per week. ES refers the workers to training programs which are administered and financed by the National Board of Education (NBE). Each county has a tripartite training committee consisting of government (NBE and AMS representatives), business, and labor federation members which determines training needs in the local economy and relevant courses (Ginsburg 1983).

The program closest to the stereotypical "make work" employment model is called relief work. The relief work program provides unemployed workers with transitional, short-term employment for usually no more than six months. County Labor Market Boards, through the AMS, draw up plans and blueprints for national and local government projects which are pigeonholed until a recessionary period begins. Many university graduates are eligible for relief work and have often used the system to get employment experience in social service professions. This has helped to improve the quality of the nation's social services, as highly qualified relief workers have often found permanent positions when their relief work jobs have ended (Ginsburg 1983). The industrial workshop program provides permanent relief jobs for factory workers. Most of these jobs are in private factories that have been shut down but are now operated by AMS to provide jobs for hard-to-place older, handicapped, or women workers.

Due to stringent advance-notice laws, massive layoffs by large corporations as typically seen in the United States do not occur until the government has prepared a response strategy. The Security of Employment Act (1974) mandates at least a one-month advance notice of layoffs or dismissals be given to all employees and their unions. The Promotion of Employment Act (1974) requires advanced notice of two to six months (depending on the size of the layoff) be given to County Labor Market Boards where more than five workers are involved. The Codetermination Act (1977) gives unions the power to tie up a planned layoff in Labor Court. The Act requires that firms provide unions with financial information justifying the layoff, and that negotiations take place when a dispute arises. If a settlement is not reached, the union may file for an injunction in Labor Court (Ginsburg 1983).

If the period of advanced notice has expired, AMS may provide a firm with a temporary grant of three-fourths the wage rate to maintain employment levels while a response strategy is worked out. ES training programs are established to encourage voluntary attrition to reach the target layoff level during the wage subsidy period, so involuntary layoffs may be avoided.

Many of Sweden's employment programs are designed to reduce the impact of business cycles on aggregate employment levels. Stockpile subsidies, investment reserves, advance notice requirements, relief work, and in-plant training are programs left dormant until recessions hit. Other programs like job training, job bank/referral services, and mobility grants have effectively reduced the cost of labor throughout the economy and have helped improve labor market operations during expansionary periods by reducing frictional unemployment. Efficient labor markets have helped reduce wage drift during these periods, reducing inflationary pressures.

Conclusion

The case of Swedish employment policy has indicated that a full employment policy may not require massive sacrifices in economic growth or lead to runaway inflation. It is, of course, difficult to speculate how well the Swedish economy would have performed in the absence of a full employment policy. But it is apparent that in addition to the obvious social benefits of full employment, the nation's economy remains healthy enough to compete successfully on a world scale.

The Swedish case also indicates that given the right political and institutional conditions and structures, a nation can achieve full employment with a high social wage and exceptional working conditions. High unionization rates, solidaristic wage policies, and social program expenditure rates among the highest in the world have made this possible.

Regional development in Sweden has suffered somewhat as a result of these policies, but the government has recently taken steps to correct the problem. By reducing relative labor costs in the northern regions, they hope to increase the movement of investment capital to these areas and help create an economic infrastructure that can nurture new industries. At the same time, the northern region can move further toward the social goal of full employment. Although unemployment remains higher in the north, it is still too early to assess the effectiveness of these measures.

The Swedish Model and the policy reforms that followed it provide an important example of how government policy may channel market forces to meet social goals. The Social Democrats have not abandoned the market. The free market provides the same *economic* functions it does elsewhere, but the Swedes have kept the market from dictating *social* priorities as well. Government has stepped in to insure a social wage that is more dependent on public policy than on market conditions, while maintaining an open economy fully integrated into the world marketplace.

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